

SUBSTANCE ABUSE SERVICES CENTER
FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
AND
INDEPENDENT AUDITORS' REPORTS

SUBSTANCE ABUSE SERVICES CENTER
JUNE 30, 2011 AND 2010

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SUBSTANCE ABUSE SERVICES CENTER

Board of Directors

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Avenarius	President	June 2012
Lou Fuller	Vice-President	June 2012
Jack Young	Secretary	June 2012
Leo Hickie III	Treasurer	June 2012
Clifford Bunting	Member	June 2012
Steve Eastvedt	Member	June 2012
Gregory Egan	Member	June 2012
Sheila Freiburger	Member	June 2012
Peggy Petlon	Member	June 2013
Dorothy Schlueter	Member	June 2012
Traci Suarez	Member	June 2012
Richard Blasen	Member	June 2014
Diane Thomas	Executive Director	Indefinite

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Jim Kircher & Associates, P.C.
Certified Public Accountants

815 Century Drive
Dubuque, Iowa 52002

Independent Auditors' Report

To the Board of Directors
Substance Abuse Services Center

We have audited the accompanying statements of financial position of Substance Abuse Services Center (a nonprofit organization), as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Substance Abuse Services Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Substance Abuse Services Center as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2011, on our consideration of Substance Abuse Services Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to

describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

JIM KIRCHER & ASSOCIATES, P.C.

Jim Kircher & Associates, P.C.

Dubuque, Iowa
September 26, 2011

SUBSTANCE ABUSE SERVICES CENTER

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

Assets	2011	2010
Current Assets:		
Cash	\$ 570,806	\$ 568,889
Certificates of Deposit	-0-	45,709
Accounts receivable, less allowance for doubtful accounts - 2011 \$6,136 and 2010 \$9,562	19,555	20,349
Prepaid expenses	37,232	39,640
Grants receivable	80,574	126,450
Total Current Assets	<u>\$ 708,167</u>	<u>\$ 801,037</u>
Property and Equipment:		
Leasehold improvements	\$ 324,594	\$ 311,959
Office furniture and equipment	165,740	162,705
Accumulated depreciation and amortization	(172,076)	(137,958)
Net Property and Equipment	<u>\$ 318,258</u>	<u>\$ 336,706</u>
Total Assets	<u><u>\$ 1,026,425</u></u>	<u><u>\$ 1,137,743</u></u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 4,593	\$ 10,823
Accrued salaries	8,457	7,094
Compensated absences	36,610	37,150
Current maturities long-term debt	-0-	53,909
Total Current Liabilities	<u>\$ 49,660</u>	<u>\$ 108,976</u>
Long-Term Liabilities:		
Note payable - bank	\$ -0-	\$ 134,567
Less current portion	-0-	(53,909)
Total Long-Term Liabilities	<u>\$ -0-</u>	<u>\$ 80,658</u>
Net Assets:		
Net Assets - Undesignated	\$ 938,413	\$ 909,921
Net Assets - Board Designated for Suta Claims	38,352	38,188
Total Net Assets	<u>\$ 976,765</u>	<u>\$ 948,109</u>
Total Liabilities and Net Assets	<u><u>\$ 1,026,425</u></u>	<u><u>\$ 1,137,743</u></u>

See accompanying notes to financial statements.

SUBSTANCE ABUSE SERVICES CENTER

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
<u>PUBLIC SUPPORT AND REVENUE</u>		
Public Support:		
Iowa Department of Public Health:		
Managed Care -State Funds	\$ 510,689	\$ 582,149
Managed Care-Federal Funds	253,815	281,590
Access To Recovery	42,484	82,484
United Way	24,995	24,000
Cities	14,813	14,813
Schools	17,875	15,948
Drug court	49,000	45,900
Gambling Grant	331,852	367,516
OWI III Contract	21,282	17,240
Dubuque Racing Association Grant	4,948	7,000
U.S. Probation Office - Probation Service	15,163	10,976
Federal Bureau of Prisons	-0-	9,466
Total Public Support	<u>\$ 1,286,916</u>	<u>\$ 1,459,082</u>
Revenue:		
Client Fees	\$ 209,301	\$ 189,069
Third Party Pay	217,255	198,886
Interest on Investments	4,075	5,919
Miscellaneous	4,192	6,431
Gain on sale of property and equipment	-0-	861
Total Revenue	<u>\$ 434,823</u>	<u>\$ 401,166</u>
Total Public Support and Revenue	<u>\$ 1,721,739</u>	<u>\$ 1,860,248</u>
<u>EXPENSES</u>		
Program Services	\$ 1,456,193	\$ 1,432,352
Support Services	236,890	249,674
Total Expenses	<u>\$ 1,693,083</u>	<u>\$ 1,682,026</u>
Change in Net Assets	\$ 28,656	\$ 178,222
Net Assets Beginning of Year	948,109	769,887
Net Assets End of Year	<u>\$ 976,765</u>	<u>\$ 948,109</u>

See accompanying notes to financial statements.

SUBSTANCE ABUSE SERVICES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Services			Linn/Clinton Gambling	Total Program Services	Total Administrative Services	Total
	Treatment	NE IA Gambling	Prevention				
Salaries	\$ 692,628	\$ 103,322	\$ 35,505	\$ 78,180	\$ 909,635	\$ 105,133	\$ 1,014,768
Benefits & taxes	207,675	23,711	6,714	13,265	251,365	23,163	274,528
Total Salaries & Related Expenses	\$ 900,303	\$ 127,033	\$ 42,219	\$ 91,445	\$ 1,161,000	\$ 128,296	\$ 1,289,296
Rent	74,119	13,442	1,175	16,860	105,596	6,563	112,159
Supplies & printing	25,163	1,517	175	1,898	28,753	2,635	31,388
Insurance	6,428	973	178	743	8,322	531	8,853
Postage	1,778	272	48	257	2,355	152	2,507
Dues & subscriptions	139	-0-	-0-	-0-	139	4,373	4,512
Business travel	4,793	11,150	602	11,576	28,121	8,549	36,670
Conferences & travel	6,651	2,077	224	1,714	10,666	1,895	12,561
Contract services	37,497	3,899	478	3,530	45,404	30,212	75,616
Telephone	13,012	2,667	499	4,014	20,192	1,471	21,663
Advertising	2,326	171	23	298	2,818	90	2,908
Small equipment & repair	3,901	633	76	1,708	6,318	1,230	7,548
Bad debts	2,390	-0-	-0-	-0-	2,390	-0-	2,390
Utilities	2,594	417	55	344	3,410	218	3,628
Access to Recovery expenses	13,565	-0-	-0-	-0-	13,565	-0-	13,565
Depreciation	-0-	-0-	-0-	-0-	-0-	34,118	34,118
Interest	-0-	-0-	-0-	-0-	-0-	2,072	2,072
Miscellaneous	13,982	839	220	2,103	17,144	14,485	31,629
Total Expenses	<u>\$ 1,108,641</u>	<u>\$ 165,090</u>	<u>\$ 45,972</u>	<u>\$ 136,490</u>	<u>\$ 1,456,193</u>	<u>\$ 236,890</u>	<u>\$ 1,693,083</u>

See accompanying notes to financial statements.

SUBSTANCE ABUSE SERVICES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Program Services				Total	Total	
	NE	IA		Linn/Clinton	Program	Administrative	
	Treatment	Gambling	Prevention	Gambling	Services	Services	Total
Salaries	\$ 635,626	\$ 114,616	\$ 23,609	\$ 69,987	\$ 843,838	\$ 104,813	\$ 948,651
Benefits & taxes	179,424	34,676	6,035	18,933	239,068	28,047	267,115
Total Salaries & Related Expenses	\$ 815,050	\$ 149,292	\$ 29,644	\$ 88,920	\$ 1,082,906	\$ 132,860	\$ 1,215,766
Rent	74,235	12,599	1,045	11,921	99,800	6,934	106,734
Supplies & printing	30,789	2,058	304	1,738	34,889	5,197	40,086
Insurance	6,460	693	132	483	7,768	579	8,347
Postage	1,700	298	30	159	2,187	196	2,383
Dues & subscriptions	68	10	1	8	87	4,187	4,274
Business travel	4,679	8,435	1,532	14,801	29,447	6,893	36,340
Conferences & travel	6,471	1,792	356	1,158	9,777	541	10,318
Contract services	42,747	17,163	291	4,616	64,817	44,015	108,832
Telephone	12,686	2,339	234	1,873	17,132	4,600	21,732
Advertising	481	1,542	14	1,509	3,546	87	3,633
Small equipment & repair	5,132	578	29	316	6,055	998	7,053
Bad debts	3,573	-0-	-0-	-0-	3,573	-0-	3,573
Utilities	2,127	355	27	237	2,746	188	2,934
Access to Recovery Expenses	37,627	-0-	-0-	-0-	37,627	-0-	37,627
Depreciation	-0-	-0-	-0-	-0-	-0-	24,619	24,619
Interest	-0-	-0-	-0-	-0-	-0-	3,426	3,426
Miscellaneous	16,261	8,262	264	5,208	29,995	14,354	44,349
Total Expenses	\$ 1,060,086	\$ 205,416	\$ 33,903	\$ 132,947	\$ 1,432,352	\$ 249,674	\$ 1,682,026

See accompanying notes to financial statements.

SUBSTANCE ABUSE SERVICES CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities:		
Cash received from patient fees	\$ 427,350	\$ 389,859
Cash received from grants	1,332,792	1,438,160
Cash received from others	4,075	6,431
Interest received	4,192	5,456
Cash paid to employees and suppliers	<u>(1,661,964)</u>	<u>(1,661,781)</u>
Net Cash Provided By Operating Activities	\$ 106,445	\$ 178,125
Cash Flows From Investing Activities:		
Redemption of Certificates of Deposit	\$ 45,709	\$ 112,019
Interest re-invested	-0-	(2,133)
Purchase of leasehold improvements	(12,635)	(303,405)
Purchases of property and equipment	(3,035)	(36,911)
Proceeds from sale of assets	<u>-0-</u>	<u>1,085</u>
Net Cash Used From Investing Activities	\$ 30,039	\$ (229,345)
Cash Flows From Financing Activities:		
Proceeds from bank debt	\$ -0-	\$ 142,000
Reduction of bank debt	<u>(134,567)</u>	<u>(7,433)</u>
Net Cash Provided By Financing Activities	\$ (134,567)	\$ 134,567
Net Increase (Decrease) in Cash and Equivalents	\$ 1,917	\$ 83,347
Cash and Equivalents at Beginning of Year	<u>568,889</u>	<u>485,542</u>
Cash and Equivalents at End of Year	<u><u>\$ 570,806</u></u>	<u><u>\$ 568,889</u></u>

SUBSTANCE ABUSE SERVICES CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(CONTINUED)

Reconciliation of Changes in Net Assets to Net Cash
from Operating Activities

	2011	2010
Changes in Net Assets	\$ 28,656	\$ 178,222
Adjustments:		
Depreciation	\$ 34,118	\$ 24,619
Non cash adjustment	-0-	(463)
Gain on sale of property and equipment	-0-	(861)
Changes in Assets and Liabilities:		
(Increase) Decrease in patient accounts receivable	794	1,904
(Increase) Decrease in prepaid expenses	2,408	(5,142)
(Increase) Decrease in grants receivable	45,876	(20,922)
Increase (Decrease) in accounts payable	(6,230)	(11,433)
Increase (Decrease) in accrued salaries	1,363	586
Increase (Decrease) in accrued expenses	(540)	11,615
	\$ 77,789	\$ (97)
Net cash Provided By Operating Activities	\$ 106,445	\$ 178,125
Non Cash Investing and Financing Activities:		
Interest earned added directly to Certificates of Deposit	\$ -0-	\$ 463
Interest paid	\$ 2,072	\$ 3,426

See accompanying notes to financial statements.

SUBSTANCE ABUSE SERVICES CENTER

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

(1) Summary of Significant Accounting Policies

The accounting and financial reporting policies of Substance Abuse Services Center conform with U.S. generally accepted accounting principles. The following is a description of significant accounting policies.

Reporting Entity

Substance Abuse Services Center is an Iowa corporation qualifying for exemption from income tax under Section 501 (c) (3) of the Internal Revenue Code.

The Center was originally organized as the Tri-County Citizen's Committee on Alcoholism and Drug Abuse to alleviate the damage of alcoholism and drug abuse, and to reduce the incidents of alcoholism and drug abuse in Dubuque and Delaware Counties.

The Center's mission statement reads as follows:

The mission of Substance Abuse Services Center is to provide quality counseling, education, and support services to address alcohol, drug, and gambling concerns while promoting physical and mental wellness.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

SUBSTANCE ABUSE SERVICES CENTER

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(CONTINUED)

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Substance Abuse Services Center considers all short-term instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2011 and 2010.

Receivables

Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on the average historical uncollected balance.

Allowance for Doubtful Accounts

An allowance for third party and client receivables is estimated based on the 5 year actual write-off percentage of recorded revenues. The total allowance for June 30, 2011 and 2010 was \$6,135 and \$9,562 respectively.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment is stated at cost. Depreciation is computed by the straight-line and accelerated methods over the estimated useful lives of 3-15 years.

SUBSTANCE ABUSE SERVICES CENTER

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(CONTINUED)

(1) Summary of Significant Accounting Policies (Continued)

Compensated Absences

The Center's employees can accumulate a limited amount of earned but unused vacation and sick day benefits. Sick leave is expensed as incurred with no compensation paid for accumulated days upon termination. Amounts for accumulated vacation time have been recorded as liabilities based on current effective rates of pay and are payable upon termination.

Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense for the years ended June 30, 2011 and 2010 was \$2,908 and \$3,633 respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

All contributions are recorded as the promise to give is received and are considered to be available for unrestricted use unless specifically restricted by the donor.

Subsequent Events

Subsequent events have been evaluated through September 26, 2011, which is the date the financial statements were available to be issued.

SUBSTANCE ABUSE SERVICES CENTER

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010 (CONTINUED)

(2) Property and Equipment

A summary of changes in property and equipment is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Leasehold Improvements	\$ 311,959	\$ 12,635	\$ -0-	\$ 324,594
Office Equipment	162,705	3,035	-0-	165,740
Total	<u>\$ 474,664</u>	<u>\$ 15,670</u>	<u>\$ -0-</u>	<u>\$ 490,334</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$34,118 and \$24,619 respectively.

(3) Retirement Plan

The Center's Board of Directors have approved a retirement plan for the benefit of the Center's employees. The plan calls for the Center to make matching contributions of 50% of each employee's contributions to his/her individual tax sheltered annuity account up to a maximum of 3% of the employee's gross compensation. The Center made contributions totaling \$16,306 and \$12,640 relating to the matching of employee contributions for the years ended June 30, 2011 and 2010 respectively.

(4) Lease Agreements

Substance Abuse Services Center has entered into a lease agreement with Banner Investments, Dubuque, Iowa for the rental of 8,266 square feet of office space in the Nesler Center. The lease is for five years commencing on July 1, 2009 and ending on June 30, 2014. There was an addendum to the lease for an additional 1,600 square feet of office space effective on July 1, 2009 and ending on June 30, 2014. The monthly lease payment for these two parcels is \$6,577.34.

Substance Abuse Services Center has agreed to an addendum to the original lease with Banner Investments for the rental of 339 square feet of office space and 1,152 square feet of storage space. The lease is for five years commencing on July 1, 2009 and ending on June 30, 2014. The monthly lease payments are \$166.68 and \$192.00 respectively. All leases have 3 five year renewal options with rent increases of 5% at each renewal period.

SUBSTANCE ABUSE SERVICES CENTER

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(CONTINUED)

(4) Lease Agreements (Continued)

Substance Abuse Services Center has entered into a lease agreement with Property Partners LLC, Keokuk, Iowa for the rental of office space in Manchester. The lease was negotiated for five years commencing September 1, 2011 and ending August 31, 2016 with a monthly lease payment of \$1,968.24. The lease has a five-year renewal option with rent increases based on the consumer price index not to exceed 12%. Substance Abuse Services Center shall also reimburse the lessor for 26.4% of the utilities.

Substance Abuse Services Center entered into a lease agreement with BRB Investments for 442 sq. ft. of office space in Cedar Rapids, Iowa. The lease term is one year commencing on July 1, 2011. The monthly lease payment is \$495.

Rental expense for the years ended June 30, 2011 and 2010 was \$112,159 and \$106,734 respectively.

A summary of minimum operating lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Manchester</u>	<u>Dubuque</u>	<u>Cedar Rapids</u>	<u>Total</u>
2012	\$ 21,452	\$ 83,232	\$ 5,940	\$ 110,624
2013	23,619	83,232	-0-	106,851
2014	23,619	83,232	-0-	106,851
2015	23,619	-0-	-0-	23,619
2016	23,619	-0-	-0-	23,619
	<u>\$115,928</u>	<u>\$249,696</u>	<u>\$ 5,940</u>	<u>\$ 371,564</u>

SUBSTANCE ABUSE SERVICES CENTER

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(CONTINUED)

(5) Notes Payable:

The Agency remodeled the leased office space located at 799 Main Street, Suite 222, Dubuque, IA for \$303,405. The Agency financed \$142,000 of the expenditure with a \$150,000 line-of-credit note from First State Bank. The note was issued on January 29, 2010 with a maturity date of November 13, 2012. The fixed interest rate on the note was 4.5% and had scheduled monthly principal and interest payments of \$2,000.

During the term of the note, additional board approved principal payments were made which paid off the note. The additional payments were made as follows:

September 2010	\$ 32,392
November 2010	<u>95,375</u>
Total	<u>\$ 127,767</u>

(6) Grants Receivable

Grants Receivable at June 30, 2011 and 2010 are composed of the following:

	<u>2011</u>	<u>2010</u>
Iowa Department of Correctional Services	\$ 1,935	\$ 900
Iowa Department of Correction Services - Drug Court	4,083	3,825
United States Probation Office	1,197	3,042
Iowa Department of Public Health - Gambling Treatment N.E. Iowa	32,722	55,676
Iowa Department of Public Health - Access to Recovery	9,350	8,600
Iowa Department of Public Health - Gambling Treatment - Linn Co.	31,087	50,903
Dubuque Community Schools	200	-0-
City of Dubuque	<u>-0-</u>	<u>3,504</u>
	<u>\$ 80,574</u>	<u>\$ 126,450</u>

SUBSTANCE ABUSE SERVICES CENTER

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(CONTINUED)

(7) Board Designated Net Assets

Board Designated net assets at June 30, 2011 and 2010 include the following:

SUTA Claims Account	<u>\$ 38,352</u>	<u>\$ 38,188</u>
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(8) Center Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

(9) Economic Dependence

The Center has entered into a contract agreement for managed care services with Magellan Behavioral Health, Inc. Managed care revenue represents 44.4% and 46.4% of total revenue for the years ended June 30, 2011 and 2010 respectively

(10) Subsequent Events

The Iowa Plan IDPH contract which is administered by Magellan Health Services was scheduled to be renewed on July 1, 2011. This contract represented 44.4% of SACS revenue for the current year as reported in Note 9. As of the date of this report the new contract has not been finalized. According to the SASC director, this is due to ongoing negotiations between Magellan and the State of Iowa over Magellan's administration fees. Until this issue is resolved, contracts with service providers in the State of Iowa such as SASC will not be finalized. Magellan has continued to make monthly distributions of funds at the old contract rate and will continue to do so until a new contract is finalized. At that time, distribution adjustments will be made if necessary.

SUBSTANCE ABUSE SERVICES CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule I

<u>Grantor/Program</u>	<u>Contract Number</u>	<u>CFDA Number</u>	<u>Contract Program Expenditures</u>
Direct:			
First Judicial District Department of Correctional Services	5881AC24	----	\$ 48,741
United States Probation Office Probation Services Contract	BPA 0862-2010-033	----	<u>16,126</u>
Total Direct			<u>\$ 64,867</u>
Indirect:			
United States Department of Health and Human Services:			
Iowa Department of Public Health:			
Division of Substance Abuse:			
Magellan Behavioral Health, Inc.			
Alcohol and Drug Abuse and Mental Health Block Grant - Managed Care		93.959	\$ 253,815
Division of Behavioral Health		93.275	<u>41,734</u>
Total Indirect			<u>\$ 295,549</u>
Total			<u><u>\$ 360,416</u></u>

Independent Auditors' Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Substance Abuse Services Center

We have audited the financial statements of Substance Abuse Services Center, Dubuque, Iowa, (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 26, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Substance Abuse Services Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Substance Abuse Services Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A **deficiency in internal control** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A **material weakness** is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Substance Abuse Services Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under **Government Auditing Standards**.

This report is intended solely for the information and use of Management, the Board of Directors, others within the entity, and federal awarded agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

JIM KIRCHER & ASSOCIATES, P.C.

Dubuque, Iowa
September 26, 2011

